

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-10 NEA-10 ISO-00 SP-02 ICA-11
AID-05 EB-08 NSC-05 SS-15 STR-07 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 L-03 H-01 PA-01 /116 W
-----120890 301432Z /43

R 301125Z APR 78
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 6946
INFO AMEMBASSY MANILA
AMEMBASSY MOSCOW
AMEMBASSY PARIS
AMEMBASSY TEHRAN

C O N F I D E N T I A L SECTION 1 OF 2 ISLAMABAD 4232

MANILA FOR ADB

PARIS FOR OECD/DAC: ADLER

E.O. 11652: GDS
TAGS: EAID, EFIN, PK
SUBJECT: PAKISTAN ASKS FOR DEBT RESCHEDULING

REF: ISLAMABAD 4018

1. SUMMARY: ON APRIL 29, SECRETARY-GENERAL KAZI PRESENTED DOCUMENT ON PAKISTAN'S DEBT SITOBTION TO AMBASSADORS OF CONSORTIUM COUNTRIES. THRUST OF DOCUMENT AND HIS ACCOMPANYING PRESENTATION IS THAT A CURRENT ACCOUNT GAP IS EXPECTED OF SLIGHTLY OVER \$1 BILLION ANNUALLY OVER THE NEXT FIVE YEARS ALONG WITH SCHEDULED DEBT REPAYMENTS AVERAGING \$456 MILLION. SINCE GROSS AID INFLOWS ARE EXPECTED TO RISE TO ONLY \$1.2 BILLION, THERE WILL BE AN UNFINANCED ANNUAL GAP OF ABOUT \$300 MIBGPZN. GOP WANTS DEBT RESCHEDULING, RETROACTIVE CONVERSION OF
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TERMS, INCREASED AID, OR COMBINATION OF THESE MEASURES. (ALTHOUGH PRESENTATION EMPHASIZES DEBT RESCHEDULING, THIS APPROACH INTRODUCES FLEXIBILITY.) KAZI ASKED FOR FIVE YEAR RESCHEDULING OF 60 PERCENT OF CONSORTIUM DEBT AT JUNE CONSORTIUM MEETING, OR AT LEAST AN INTERIM RESCHEDULING OF 60 PERCENT OF PFY 79 DEBT. HE SAID EQUIVALENT TREATMENT WAS BEING SOUGHT FROM OPEC

COUNTRIES, MAINLY IRAN, AND SOCIALIST COUNTRIES.
END SUMMARY.

2. ON APRIL 29, SECRETARY-GENERAL OF FINANCE KAZI SUMMONED AMBASSADORS FROM AID TO PAKISTAN CONSORTIUM COUNTRIES TO PRESENT MEMORANDUM ON PAKISTAN'S DEBT PROBLEM WITH ACCOMPANYING ORAL PRESENTATION. THIS MEETING DISTINCT FROM USUAL PRE-CONSORTIUM MEETING WITH AMBASSADORS WHICH KAZI SAID WILL TAKE PLACE WITHIN THE NEXT TWO WEEKS AND AT WHICH "BROAD OUTLINE" OF NEXT FIVE YEAR PLAN WILL BE PRESENTED.

3. KAZI BEGAN BY NOTING ACCEPTANCE BY DC'S AT UNCTAD MINISTERIAL ON DEBT OF CASE-BY-CASE APPROACH TO DEBT RESCHEDULING. HE ARGUED THAT THE PAKISTAN DEBT SITUATION MAKES PAKISTAN ONE OF THE FIRST COUNTRIES TO CONSIDER. AS OF JUNE 1977, EXTERNAL DEBT WAS \$6.3 BILLION OR ABOUT ONE-HALF OF GNP. HE SAID THE DEBT WAS INCURRED TO FINANCE A LARGE AND RISING CURRENT ACCOUNT DEFICIT WHICH RESULTED FROM A DETERIORATION IN THE TERMS OF TRADE, RECESSION IN THE DEVELOPED COUNTRIES, AND BAD LUCK AT HOME WITH SUCH THINGS AS THE WEATHER. IT WAS NOT, HE SAID, CAUSED BY IMPROVIDENT ACTION BY PAKISTAN. HE CONTINUED THAT PAKISTAN'S DEBT SERVICE RATIO IS ONE OF THE HIGHEST IN THE WORLD. WITHOUT EARLIER DEBT
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RESCHEDULING, IT WOULD BE 52 PERCENT; WITH DEBT RESCHEDULING, IT HAS RISEN FROM 26 PERCENT IN THE EARLY 70'S TO 38 PERCENT CURRENTLY. IF NO RELIEF IS GRANTED, THE RATIO WILL REACH 45 PERCENT. (THESE RAIOS ARE FOR VISIBLE EXPORTS ONLY. ADDING WORKERS' REMITTANCES SUBSTANTIALLY REDUCES THE RATIO IN RECENT YEARS.)

4. THE GOP POSTULATES AN EXPORT GROWTH OF 10.5 PERCENT AND IMPORT GROWTH OF 6 PERCENT, WITH A RESULTING INCREASE IN THE TRADE DEFICIT FROM \$1.5 BILLION TO \$1.65 BILLION OVER THE NEXT FIVE YEARS. HOWEVER THE CURRENT ACCOUNT GAP IS EXPECTED TO STABILIZE AT \$1.025 BILLION BECAUSE OF EXPECTED GROWTH IN WORKERS' REMITTANCES FROM \$1 BILLION TO \$1.3 BILLION IN FIVE YEARS. WHEN DEBT REPAYMENT AVERAGING \$456 MILLION ANNUALLY IS ADDED, THE FINANCING REQUIREMENT BECOMES ABOUT \$1.48 BILLION ANNUALLY. GROSS AID IS EXPECTED TO RISE TO \$1.2 BILLION LEAVING AN UNFINANCED GAP OF ABOUT \$280 MILLION ANNUALLY. KAZI NOTED THIS FIGURE IS ALMOST IDENTICAL WITH THE PFY 1979 GAP ASSUMED BY THE WORLD BANK IN THE 1978 EDITION OF "PAKISTAN: DEVELOPMENT

ISSUES AND POLICIES". IF THIS GAP IS NOT FILLED BY
RESCHEDULING OR SOME OTHER MEANS, IT MUST BE FILLED
BY COMMERCIAL CREDITS.

5. ALTHOUGH HIS EMPHASIS WAS ON RESCHEDULING, KAZI
SAID THE GOP IS NOT DOCTRINAIRE ON HOW THE GAP IS
FINANCED. SOME COUNTRIES, PARTICULARLY THE US, HAVE
TAKEN THE POSITION THAT DEBT RELIEF SHOULD NOT BE AID.
THE PAKISTANIS ARE INDIFFERENT AS TO WHETHER THE GAP
IS FILLED BY DEBT RELIEF OR ADDITIONAL AID OR A
COMBINATION OF THE TWO. HE ADDED THAT FOR SOME
COUNTRIES ANOTHER POSSIBILITY WOULD BE RETROACTIVE
ADJUSTMENT IN THE TERMS OF DEBT. HE SAID PAKISTAN
LEFT IT TO THE CREDITOR COUNTRIES HOW THEY WANTED
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TO HELP PAKISTAN COVER ITS UNFINANCED GAP.

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C O N F I D E N T I A L SECTION 2 OF 2 ISLAMABAD 4232

MANILA FOR ADB

PARIS FOR OECD/DAC: ADLER

6. KAZI NOTED THAT RESCHEDULING 60 PERCENT OF CONSORTIUM DEBT OVER THE NEXT FIVE YEARS WOULD REDUCE THE BURDEN BY THE NECESSARY \$300 MILLION A YEAR. HE SAID THAT HE RECOGNIZED THAT SOME COUNTRIES MIGHT FIND THE TIME BETWEEN NOW AND THE JUNE CONSORTIUM MEETING TOO SHORT AND CURRENT INFORMATION TOO SKETCHY TO COMMIT THEMSELVES TO A FIVE YEAR PROGRAM. HE HOPED THAT WHILE THEY WERE DECIDING THEY WOULD BE ABLE TO COMMIT THEMSELVES TO A ONE YEAR RESCHEDULING AT THE JUNE CONSORTIUM MEETING.

7. THE GERMAN AMBASSADOR ASKED ABOUT THE ATTITUDE OF NON-CONSORTIUM COUNTRIES. KADU REPLIED THAT IN THE CASE OF OPEC COUNTRIES, ALL EXCEPT IRAN HAVE LOANED ON VERY SOFT TERMS AND NO REPAYMENTS ARE DUE. IRAN HAS AGREED TO MATCH CONSORTIUM PERFORMANCE (WHAT THIS CONFIDENTIAL

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MEANS IS NOT CLEAR). HE SAID THE SOCIALIST COUNTRIES WERE ALSO BEING APPROACHED. (WE ASKED THE SOVIET ECONOMIC COUNSELOR WHETHER THE USSR WAS PREPARED TO RESCHEDULE AND WERE TOLD THAT THE SOVIETS BELIEVE THAT "DEBTS SHOULD BE HONORED". WE DON'T KNOW IF HE WAS SPEAKING ON INSTRUCTIONS.)

8. KAZI CONCLUDED BY SAYING THAT THE WORLD BANK HAS ADVERTED TO SOME DIFFICULTIES WITH PAKISTAN'S PROPOSALS AND ASKED THAT IT NOT BE MADE PUBLIC FOR NOW IN CASE IT SHOULDN'T GO THROUGH.

9. KAZI MADE NO MENTION OF SUSTAINED RISE IN FOREIGN RESERVES WHICH STOOD AT \$613 MILLION ON APRIL 20.

10. COPIES OF DOCUMENT HAVE BEEN SENT BY IBRD TO PARIS WHERE THEY WILL BE AVAILABLE FOR MAY 4 HEADS OF DELEGATION MEETING. WE ARE POUCHING TWO COPIES (THE ONLY EXTRAS WE HAVE) TO H. R. LUCIUS, NEA/PAB. HUMMEL

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Message Attributes

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